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C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 001747

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TAGS: [ECON](#) [PGOV](#) [PREL](#) [ETRD](#) [KHLs](#) [PTER](#) [VE](#)
SUBJECT: VENEZUELAN CEMENT INDUSTRY HEADED TO INTERNATIONAL
ARBITRATION

REF: A. CARACAS 1690
[1](#)B. CARACAS 1393

Classified By: Economic Counselor Darnall Steuart for reasons 1.4
(b) and (d).

[1](#)1. (C) SUMMARY: Cement companies Holcim and Lafarge are expected to soon join Cemex at the International Center for Settlement of Investment Disputes (ICSID) after giving up hope of compensation for their nationalized operations in Venezuela. According to a Holcim executive, the company was reluctant to take this step as it estimates that international arbitration will take a minimum of three years and it may or may not recover its USD 700 million investment. Holcim believes there is currently no incentive for the Venezuelan government to pay for its growing list of nationalized companies. The forecast for the Venezuelan cement industry in 2009 is that production will fall as the government fails to invest in maintenance. Corruption will increase as the government continues to give jobs to its cronies and awards contracts for kickbacks. END SUMMARY

ICSID THE ONLY OPTION AS GOVERNMENT WILL NOT PAY

[1](#)2. (C) On December 15, Holcim Executive Louis Beauchemin (strictly protect throughout) told Econoffs that his company did everything it could to avoid international arbitration. The last thing Holcim's Swiss Headquarters wanted was a fight with the Government of the Bolivarian Republic of Venezuela (GBRV). After the GBRV missed yet another deadline in November to reach a final agreement, however, Holcim instructed its team of international arbitration lawyers in New York to begin laying the ground work for an ICSID case to be ready by early January. In spite of a strong reluctance to abandon a thirty-year relationship with Venezuela, Beauchemin said his headquarters is finally convinced that international arbitration is the only hope for payment. In a best case scenario, the company expects to spend at least three million in lawyers fees over three years, and hopes to obtain roughly USD 700 million in compensation from the GBRV.

[1](#)3. (C) Beauchemin said the Swiss President will formally appeal to the GBRV on Holcim's behalf by December 19, but he is doubtful this will have any impact based on Lafarge's experience with a similar plea by the French government. He added that his contacts at Lafarge tell him they will be joining Holcim and Cemex (ref A) at ICSID in the near future as they have also concluded that, in spite of recent statements to the press to the contrary, the GBRV has no intention of paying. Holcim has started backing up its

operating systems and transferring data to Brazil, as Beauchemin recommended that Holcim pull the plug on its proprietary software in January. This would force its Venezuelan plants and financial systems to go to "manual", which is almost unheard of in large-scale plants and will cause production to drop. Cemex' production has already dropped significantly since nationalization, he added.

¶4. (C) Beauchemin believes the GBRV's decision to avoid paying for nationalized companies is only logical. In today's financial markets, he opined, a risky bet like Venezuela has little chance of securing loans. Under these conditions, the disapproval of the international financial community in the short term is irrelevant. This, he believes, encourages governments like Venezuela and Ecuador to act irresponsibly as they have nothing to lose.

¶5. (C) Beauchemin said that fortunately, the GBRV took over the industry at the best possible time for Holcim. In August 2008, Holcim, Cemex and Lafarge's Venezuelan operations were worth much more than they are today. Consequently, he said there are indications the GBRV is trying to develop the case that it did not actually take possession of the companies until after their values had dropped. Beauchemin said he has a recent government report which states that Cemex workers spontaneously seized Cemex plants on August 18, 2008. Although the claim will be very easy to refute given the televised coverage of the National Guard's seizure of the plants, Beauchemin believes the GBRV has excellent lawyers who will do their best to prove all three of the companies still had control of their own operations until the end of ¶2008. The longer Holcim and Lafarge wait to resort to ICSID, Beauchemin added, the stronger the GBRV's case becomes on

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this point.

INDUSTRY PREPARING FOR NATIONALIZATION FOR OVER A YEAR

¶6. (C) Since 2007 when Chavez first mentioned an interest in nationalizing the cement industry, Beauchemin said all three major companies in the sector started preparing. He stated that the Cemex and Lafarge response was to stop all investment and to conduct only essential maintenance. Holcim continued to maintain its plants but took the precaution of creating a parallel, or shell company, within Venezuela with no assets. Holcim then took out a USD 20 million loan at a Venezuelan bank. When the company was nationalized in August 2008, the GBRV immediately seized the USD 10 million Holcim had in cash but also inherited the USD 20 million loan. Beauchemin said the other two multinationals likely took similar steps to cut their losses as any nationalization threat in Venezuela has to be taken seriously. (NOTE: Beauchemin is working at Holcim's shell company through December 19 when he will depart Venezuela for a position in Colombia, as he believes the GBRV will "PNG" him following delivery this week of a "trigger letter" for ICSID arbitration. END NOTE.)

NO MAINTENANCE PLUS CORRUPTION EQUALS FALLING PRODUCTION

¶7. (C) Beauchemin stated that his industry contacts believe Venezuelan Vice President Carrizalez will be replaced in the next few weeks. The current transition team members know the new Vice President will replace them with his friends, which Beauchemin said is leading them to take full advantage of their positions while they last. The Holcim transition team is canceling long-standing Holcim contracts and awarding them to their friends for kickbacks as quickly as they can. In one example, in a "cost cutting measure" the Holcim transition team negotiated a new contract with a "cheaper" customs broker that caused Holcim's customs fees to go from

an average of USD 2,300 a month to USD 65,000. In a further example, Beauchemin said that mid-level transition team members negotiated a contract with a new law firm, even though Holcim had a long-standing contract with a prestigious firm. When the head of the transition team found out, he made the mid-level executives cancel the deal, as he had already cut a side deal with a different law firm.

18. (C) In addition to everyday corruption, the company formerly known as Holcim (the new name has yet to be determined) is already showing signs that it has no intention of maintaining plant machinery. Beauchemin said that if Holcim were still in charge, it would take the majority of the USD 100 million he projects Holcim will make in Venezuela this year and re-invest it in the maintenance program. He noted that Holcim Venezuela should currently be preparing to hire hundreds of contractors and have approximately 1,000 replacement parts on hand for an annual plant maintenance project in February. Unfortunately, he said, the company has procured 30 of the 1,000 required parts and has no apparent plan to hire the contractors. He believes production will fall quickly without plant maintenance, as items such as bricks for the kilns are only good for a maximum of one and a half years and should be replaced annually.

COMMENT

19. (C) A company like Holcim, if it ever returns to Venezuela, will likely find little remains of its investment once government officials divide the spoils among themselves. The cement nationalizations are yet more evidence of the current government's lack of foresight. Developing a long list of cases in the ICSID will over time only hurt Venezuela's standing with foreign investors and capital markets. In the short term, however, nationalizations without timely compensation give Chavez all the benefits of the milk while putting off payment indefinitely for the cow.
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